

# Report of the auditor-general to the Free State Legislature and the council on the Moqhaka Local Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Moqhaka Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2017, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Moqhaka Local Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Material uncertainty related to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. Note 52 to the financial statements indicates that the municipality incurred a net loss of R138 612 701. The municipality also owed Eskom R210 676 280 as at 30 June 2017 of which R179 091 347 was long overdue. Furthermore, as reflected in note 15 to the financial statements, payables increased to R293 953 833 (2016: R167 914 043) since the prior year. These conditions, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern and to achieve its service delivery objectives as outlined in the annual performance plan.

## **Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Material losses**

9. As disclosed in note 54 to the financial statements, material electricity losses of R51 137 515 (2016: R 55 838 036) were incurred which represents 23% (2016: 27%) of the total electricity purchased, mainly due to line losses, tampering and theft.

### **Material impairments**

10. As disclosed in note 4 to the financial statements, consumer receivables were impaired by R334 421 822 (2016: R287 000 300) which the municipality deemed would not be recoverable from consumers.
11. As disclosed in note 6 to the financial statements, assessment rates were impaired by R15 875 630 (2016: R15 543 376) which the municipality deemed would not be recoverable from consumers.

### **Irregular expenditure**

12. As disclosed in note 55 to the financial statements irregular expenditure of R33 897 608 (2016: R29 713 693) was incurred mainly due to non-compliance with supply chain management (SCM) requirements.

### **Unauthorised expenditure**

13. As disclosed in note 57 to the financial statements, unauthorised expenditure of R183 666 884 (2016: R146 012 111) was incurred due to overspending of the approved budget.

## **Other matters**

14. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Unaudited disclosure notes**

15. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

## Unaudited supplementary information

16. The appropriation statement set out on page xx does not form part of the financial statements and is presented as additional information. I have not audited this statement and, accordingly, I do not express an opinion on it.

### **Responsibilities of the accounting officer for the financial statements**

17. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA standards of GRAP and the requirements of the MFMA and DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
18. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the intention is to liquidate the municipality or cease operations, or there is no realistic alternative but to do so.

### **Auditor-general's responsibilities for the audit of the financial statements**

19. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken the basis of these financial statements.
20. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

## **Report on the audit of the annual performance report**

### **Introduction and scope**

21. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for the selected key performance areas (KPAs) presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
22. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods

that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

23. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected KPA presented in the annual performance report of the municipality for the year ended 30 June 2017:

KPA	Pages in the annual performance report
Basic service delivery	x – x

24. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
25. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following KPA:
- Basic service delivery

#### **Other matters**

26. I draw attention to the matters below.

#### **Achievement of planned targets**

27. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year and explanations provided for the under achievement of a significant number of targets.

#### **Adjustment of material misstatements**

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the KPA for basic service delivery. As management subsequently corrected the misstatements, I did not raise material findings on the usefulness and reliability of the reported performance information.

### **Report on the audit of compliance with legislation**

#### **Introduction and scope**

29. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

30. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

#### Annual financial statements

31. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided resulting in the financial statements receiving an unqualified audit opinion.

#### Procurement and contract management

32. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c).
33. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year.
34. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).
35. Persons in the service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

#### Asset management

36. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
37. All investments were not made in accordance with the requirements of the investment policy that states that no more than 20% of the total amount invested by the council at any time shall be in one institution or type of investment, as required by municipal investment regulation 3(3).
38. Capital assets were permanently disposed without the approval of the council, as required by section 14(2)(a) of the MFMA.

#### Expenditure management

39. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
40. Effective steps were not taken to prevent irregular expenditure amounting to R33 897 608 as disclosed in note 55 to the financial statements, as required by section 62(1)(d) of the MFMA.

41. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R12 811 907, as disclosed in note 56 to the financial statements, as required by section 62(1)(d) of the MFMA.

#### Budget management

42. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R183 666 884, as disclosed in note 57 to the financial statements, as required by section 62(1)(d) of the MFMA.

#### Human resource management

43. I was unable to obtain sufficient appropriate audit evidence that appropriate systems and procedures to monitor, measure and evaluate performance of staff were developed and adopted as required by section 67(1)(d) of the MSA.

#### Consequence management

44. Unauthorised expenditure by the municipality was not investigated to determine whether any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
45. Irregular expenditure by the municipality was not investigated to determine whether any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA
46. Fruitless and wasteful expenditure by the municipality was not investigated to determine whether any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

#### Other information

47. The Mqohaka Local Municipality's accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected KPAs presented in the annual performance report that have been specifically reported in the auditor's report.
48. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
49. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with financial statements and the selected KPA presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.



## Internal control deficiencies

50. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.
51. Management did not in all instances exercise oversight to ensure that accurate and reliable information is submitted timeously as there were material misstatements in the financial statements and annual performance report that required adjustments during the audit.
52. Lack of oversight by those charged with governance to ensure legislation relating to the procurement of goods and services were correctly implemented.
53. There were no formal processes in place to effectively monitor compliance with applicable legislation, which resulted in a number of compliance findings.
54. There was also a lack of consequences where laws and regulations were not complied with.

*Auditor-General*  
Bloemfontein

30 November 2017



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **Annexure – Auditor-general's responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected predetermined objectives and on the municipality's compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
  - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Moqhaka Local Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.